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DISCUSSION.

THE BASIS OF INTEREST.

(A Reply to Mr. Lowrey.)

Under the above caption there appeared in the ANNALS for March an interesting paper by Dwight M. Lowrey, Esq. The author, having apparently accepted Mr. George's economic doctrines in relation to labor and rent, points out the inconsistency between these doctrines and the same writer's theory of interest. He strives to refute and destroy this latter theory, and to establish a theory of his own, which will square with those doctrines. His purpose appears to be to redeem the main principles of Mr. George's system of economics from the socialism toward which they so strongly tend. His statements are so clear, his style so charming and vigorous, and his tone so confident that the reader is carried away by the writer's enthusiasm. On careful consideration, however, I can not but feel that in both the destructive, or critical, and the constructive, or positive parts of his effort, he has been unsuccessful.

Briefly stated, Mr. George's theory of interest is that capital may be so employed as to aid labor by bringing into co-operation with it the properties of matter, or the active forces of nature, thereby bringing to its user an increment which his unaided labor could not secure; that capital may purchase the help of the spontaneous efficiency of nature, and thereby become reproductive; and, that the lender of such capital may justly take interest in compensation for the loss of this assistance.

Having stated this theory, Mr. Lowrey points out the truth, that if part of this product is the result of natural forces, and not of its possessor's labor alone, then the laborer is enjoying more than his product, and, according to Mr. George's shibboleth that he is entitled to his product, the

whole of his product and *nothing but his product*, the public may justly confiscate that part of it which nature contributed. This, as he states, leads, in the last analysis, to pure socialism. In order to escape this conclusion he proceeds, not to examine whether this shibboleth is a final statement of the basis of private property, but to deny for nature any such spontaneous efficiency as is claimed for it; to argue that in all the various undertakings in which human labor is engaged nature contributes nothing to the result, but the whole is the product and reward of labor. "But the real answer to Mr. George," he says, "is that the whole notion of the reproductive power of capital is a delusion. There is no form of capital which will yield an increase which is not the result of labor."

This clear and confident statement appears to me to be in flat contradiction to the basis upon which all business is conducted, and to be as unsound in the abstract as it is unprofitable and delusive in the concrete. The fundamental vice in the theory is that it utterly ignores that vital point in all productive labor, *the means necessary to its employment*—materials upon which to work, tools with which to work, both adapted by nature and design to the kind of work in hand. Under the present constitution of society it is the part of capital to furnish, generally the former, and always the latter. Without this means of production little of what now results from labor would be produced. A part of the result must, therefore, be credited not to labor, but to capital; or rather, it is the joint product of both. This province of capital is denied in the passage above quoted. Notwithstanding this denial the facts seem to me almost too palpable to require argument, but a single illustration may not be out of place.

A South African miner finds a diamond in the earth. For his personal use it is a mere pebble and worthless. It is, however, sent to a skilled diamond cutter, who works upon it with the best appliances of his trade, and it emerges from the process a gem of almost priceless worth. Had it been

treated by tools and appliances less suited to the work its beauty and value would have been far less. Is this value due wholly to the labor put upon it? Mr. Lowrey, to be consistent, must answer, yes. But not so thinks the miner, who holds it at a large price, because he sees in it the means of producing the gem. A miner in the Black Hills finds a diamond of an inferior quality. He may place it in the hands of the same lapidist, but no amount of labor and skill, no character of tools and appliances will enable him to produce a gem equal to the former. This difference in product is due wholly to the difference in the means of production placed in the laborer's hands.

"It is true," Mr. Lowrey admits, "that there are in nature about us active forces in constant operation which we may direct to the production of wealth. The vital forces are of this category, but they, by no means, constitute the whole of it. These active forces which make for change are properties of matter no less surely than are the passive properties which offer resistance to change. A carpenter is able to put a finish on a board with a plane, not merely because he applies his labor to the work, but because the board in the order of nature, is so constituted that it may be polished in that way. Some boards take a better finish than others; and, if he worked all day, his plane would not make any impression upon a pail of water or a heap of sand. A lumberman throws logs into a stream and the current carries them down to the boom. He takes advantage of the properties of water, its buoyancy and its disposition to run down hill, in order to effect his purpose, which is the transportation of the logs. He puts the logs into the stream, says Mr. George, nature does the rest. Well, what of it? The cabinet maker moves his plane over the face of a rough walnut board, nature does the rest. Human labor gives the original impulse in both instances, and the product is the joint result of the human impulse and the properties of matter."

This is true, but it is in direct contradiction of Mr. Lowrey's purpose, for it recognizes a joint product, the re-

sult of human labor and of the properties of matter, ownership in the whole of which, in accordance with the before-mentioned shibboleth, which Mr. Lowrey accepts as having the force of self-evident truth, the laborer cannot claim, since a joint product is the result of something more than his labor. Farther on, however, it will be seen that he loses sight of this distinction and claims for labor the entire product. In the following passage the efficiency of nature, admitted above, is denied and the entire result attributed to labor.

“Mr. George’s imagination is profoundly impressed by the thought that after having thrown his logs into the stream the lumberman may sleep while his timber is floating down to its destination ; that the farmer may sleep while his grain is germinating and developing ; that the shepherd may sleep while his flocks are multiplying. But the interpretation of this fact, so far as it is a fact, is exactly the converse of the one suggested by Mr. George. The explanation is not that in these instances the laborer receives some exceptional reinforcement from the so-called vital forces of nature, but rather that after he has done all that he can do he is compelled to wait a considerable time before he can enjoy the the finished product. Indeed, this circumstance appears to be rather a disadvantage than an advantage. * * * It is not, as Mr. George supposes, a pension to idleness, but it is directly a burden upon labor, not an aid but a discouragement. The length of time required for grain to germinate and ripen, for wine to mature, or for the logs to reach the boom, strikes Mr. George’s imagination and causes him to think that nature is coöperating with man in those instances in a manner distinct from that in which she lends her aid in the transaction of planing a plank. In truth this is not the case, the only real difference is that her response to the impulse of labor is slower in one case than the other.”

In view of what I have said above, it seems hardly necessary to point out the fact that in the transaction of planing the plank Mr. Lowrey has not selected an example in which

the result is the product of labor alone. To show a parity between two products, both of which are the combined result of human labor and the properties of matter, does not help his cause. He must show such a parity between the result of labor alone and that of labor assisted by nature. This he does not attempt. Then too, the proposition which he does make seems to me utterly untenable. The power to imitate the example of the Saviour at Cana would no doubt be desirable, but, in the absence of such a power, it is not probable that any one else ever saw, in the fine chemical process by which grape juice is converted into wine, or in the action of the sun, by which the acid of the unripe fruit is converted into the delicious flavor of the peach, a burden and penalty upon labor. When the plank is planed its substance is the same as before. Its value is enhanced only by the labor and skill put upon it in order to adapt it to the required purpose. But the grape juice has been transmuted and become an entirely different substance. Its value has been increased both by the care of man and by the properties conferred upon it by the process of fermentation and of ripening. Nature could not have dispensed with man's part in the transaction. No part or skill of man can do nature's part of the work. To deny to nature a share in the result, even though time is consumed in the process, seems to me sheer nonsense. But unless Mr. Lowrey intends to do so, he has not yet escaped a joint product together with the right of confiscation which "leads to pure socialism."

Space will not permit me to examine Mr. Lowrey's able paper passage by passage, but from what has been quoted above and the following, the spirit of his argument may be fairly caught :

"Now it is perfectly true that the milk and fruit do represent something more than the reward of labor of the current season, but that is the case only because the labor of the current season does not constitute all the labor which was required to bring about the result. When the tree was planted the object was to obtain fruit, and when the cow was bred the

object was to obtain milk. The fruit and the milk are the reward of all the labor necessary to obtain them, *and they are the reward of nothing else.* If the fruit tree never bears but one apple and then becomes barren, if the cow gives but one quart of milk and then never gives any more, the labor previously expended would be rewarded though insufficiently. If, on the other hand, the branches of the tree are laden with fruit and the cow's udder is heavy with milk with each recurring season through the long series of years the labor will be richly rewarded. *But in each case it is the labor alone which was rewarded.* In the same way, a table is the reward of all the multifarious labor which precedes its completion, but in that case the reward is obtained all at once. Milk and fruit, however, are recurrent rewards which nature pays in installments. *That is the only difference."*

The italics are mine. Now I cannot doubt that Mr. Lowrey has persuaded himself of the truth of the position here taken, but I am quite confident that if the tree and the cow were gifted with reason as well as endowed with life, he would have a hard time in persuading them of the justice of his conclusion, and that their activity counted for nothing in the result. Besides it is not true that the table is the reward of all the labor which preceded its completion. It is something more than this. It is the combined result of this labor and of the forces of nature, which operated aforetime in the forest and the mine, producing the materials of which it is made. These materials, together with the workmen's tools, were the capital used in its construction ; it is, therefore, the joint product of capital and labor, or, if we go farther back, of nature and labor. But under the Georgian theory the public may confiscate that part which belongs to nature. We have not, then, been helped by Mr. Lowrey's argument, in the direction in which he would lead us. In the remaining parts of the sixteen pages devoted to the criticism of Mr. George's theory of interest, I do not find anything differing in purpose or more helpful in matter, than in the passages quoted. His earnestness, his vigorous spirit, and his

clear and graceful style, are worthy of all praise, but his logic does not appear to me satisfactory, nor his conclusions sound.

In the second or constructive part of his essay, Mr. Lowrey avails himself of Bastiat's illustration as corrected by Mr. George. As he states the problem, James and William are equal in all respects, save that the latter has a plane while the former has none. Each is required to work ten days to make a plane. Each can plane one plank a day and in 290 days his plane will be worn out. James borrows William's plane, agreeing, at the end of the year, to return a new one in its stead, and to pay one plank for its use. He works 290 days and produces 290 planks. The remaining ten days he employs in making a new plane which he gives to William to replace the borrowed one, together with one plank as interest. William employs the first ten days in making a plane, the next 290 in planing with it. At the end of the year he has worn out his plane, has produced 290 planks, receives a new plane from James and one plank besides, so that James will have 289 planks and William 291, whereas, had James, instead of borrowing, employed the first ten days in making a plane he would have finished his 290 planks at the end of the year, while William would have finished planing ten days earlier and employed the last ten days in making his own new plane. At the end of the year each would have had 290 planks and would have in all other respects exactly similar to their condition on the supposition that James borrows William's plane. Under these circumstances how can James justify borrowing, or William the receipt of interest? Mr. Lowrey's assumption is that they are upon terms of perfect equality, save that William possesses the plane. It will not do, he tells us, to suppose that James borrows to enable him to meet present needs by present product, for, upon that theory William's need would be equally great, and, therefore, he could not loan the plane. Thus, point by point, he rules out all motives for the transaction save one. Upon this motive he rests his case, and believes that he has established an unassailable basis of in-

terest. This remaining motive is desire. James desires the possession of his planks ten days earlier than he could otherwise have them, and, for the gratification of this desire, he is willing to part with a plank. William also has this desire, but he is willing to forego it for the sake of gaining a plank.

Such the problem, such Mr. Lowrey's solution of it. Upon examination, however, one will find the question still unsolved. Upon the basis of exact equality, which is the condition assumed, the desire of James would be no stronger than that of William. These desires exactly balancing each other, the transaction could not take place, except upon condition that James weakly yields to self-indulgent folly by playing more than the gratification of his desire is worth, and William overreaches his fellow by taking more than the equivalent of his self-sacrifice. Upon this assumption alone can the transaction take place. It is plain such a transaction lacks an equitable basis, and so, for want of foundation, falls the superstructure which Mr. Lowrey has erected with so much diligence and care.

Is it possible, then, to so state the case as to justify the taking of interest for capital loaned? One may easily imagine many circumstances in which the benefit to William would be greater than that of the future possession of the plank, as, for instance, the supply of present needs for self or family, or the procurement of present means of profitable employment, and, in such cases, he may prudently borrow.

But can William be justified in taking interest? If his mind has been mystified by the speculations of the political economists, he may have difficulty in so doing. But if he be a plain man of business, he would probably reason thus: "I can exchange the plane with John for a pair of chickens. These will yield enough in eggs and young chickens to repay the cost and labor I will be required to expend upon them, and have, at the end of the year, surplus sufficient to buy a plank; therefore, if I loan the plane to James, I may justly take from him the plank I might otherwise gain."

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